

**ACTIVATE THE
AUSTRALIA-US-JAPAN
TRILATERAL
INFRASTRUCTURE
PARTNERSHIP**

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Context and background

Australia, the United States and Japan should activate trilateral mechanisms to support the private sector to take up infrastructure funding initiatives in the Indo-Pacific. Amidst the many upheavals of 2020, the value of infrastructure partnerships in the Indo-Pacific to Australian foreign and security objectives has fallen by the wayside. This issue matters because one of the most permanent ways in which China's claims to regional leadership is being asserted is via the provision of the Indo-Pacific's underpinning infrastructure. China's Belt and Road Initiative (BRI) is providing essential transport and information connectivity to the region, however, BRI projects are not always transparent, nor do they meet global quality standards.

Australia, the United States and Japan all agree that to provide regional partners with fair, open and ethical financing alternatives – and to compete effectively with the BRI, they must leverage the resources of the private sector. Leveraging private sector capital and expertise in our development agencies' infrastructure programming is critical to increasing our impact and strategic success. With the small and medium economies of the region looking to build critical infrastructure to meet the demands of their populations and growth, there is a small and fast-closing window of opportunity for Australia, the United States and Japan to capitalise on this moment.

Launched partly in response to China's BRI, in November 2018 Australia, the United States and Japan announced the *Trilateral Partnership for Infrastructure Investment in the Indo-Pacific*.^{5.1} The Trilateral Partnership aims to provide regional governments with an alternative, transparent source of infrastructure funding and emphasises working with the private sector to improve outcomes relative to purely state-financed programs like the BRI. In November 2019, the Trilateral Partnership announced the Blue Dot Network (BDN) – an initiative to reduce the risk for private investors by providing certification for government, private sector, and civil society infrastructure projects that met international quality standards.^{5.2} While primarily a certification body, it can also provide access to US\$60 billion in capital in loans or equity through the US International Development Finance Corporation (US-IDFC). However, specific mechanisms remain to be determined.

Despite efforts by the Trilateral Partnership, no public-private infrastructure projects have been cemented. The first and only project under this trilateral framework – an undersea fibre optic cable connecting Palau with the Indo-Pacific – is being done in partnership with the Palau Government rather than industry.^{5.3} The only other project on the horizon is an undersea cable connecting Santiago with Sydney^{5.4} but again, progress is slow – discussions between Canberra, Washington and Tokyo for a project focused predominantly on Australia and

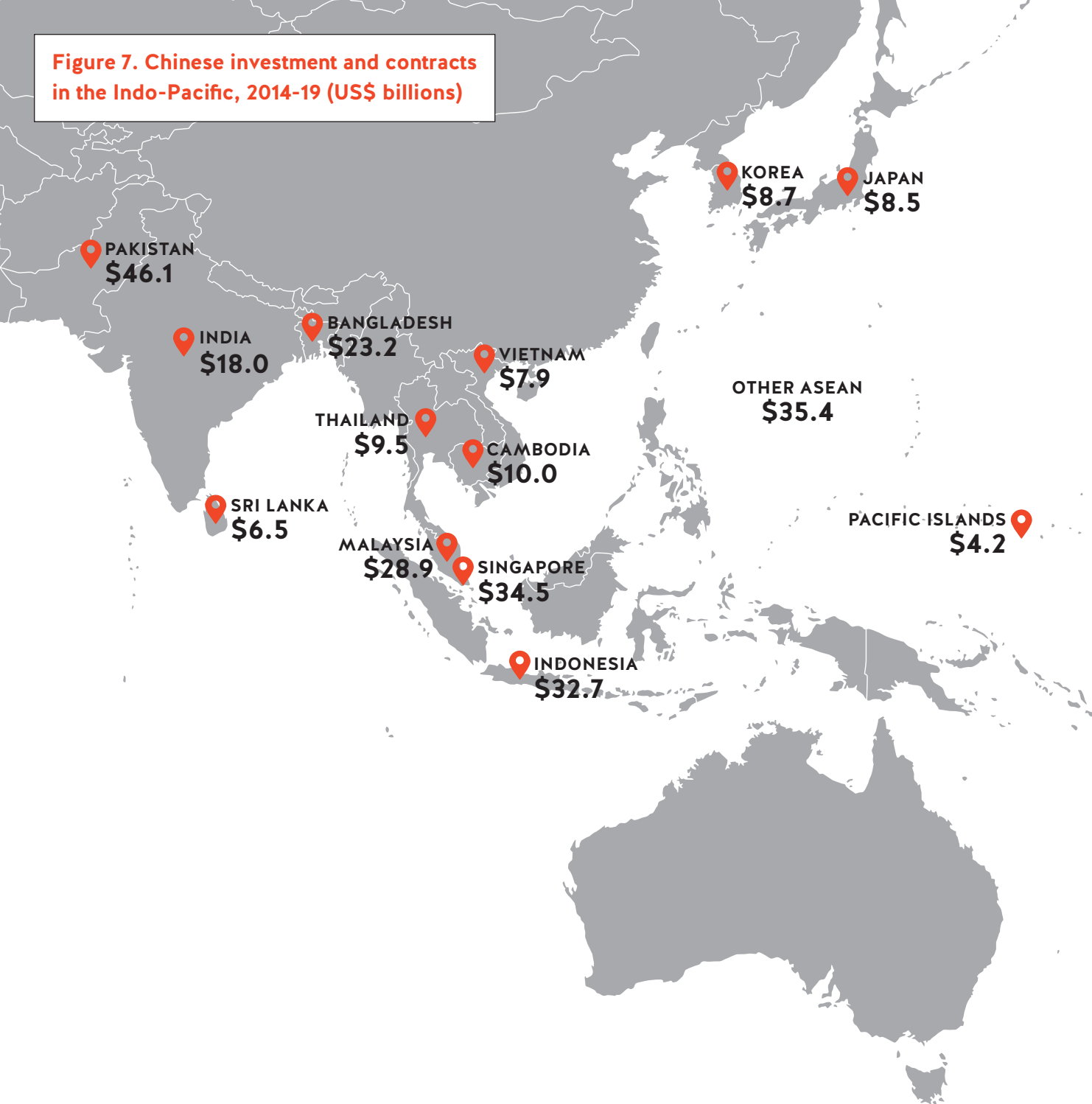
WITH THE SMALL AND MEDIUM ECONOMIES OF THE INDO-PACIFIC REGION LOOKING TO BUILD CRITICAL INFRASTRUCTURE TO MEET THE DEMANDS OF THEIR POPULATIONS AND GROWTH, THERE IS A SMALL AND FAST-CLOSING WINDOW OF OPPORTUNITY FOR AUSTRALIA, THE UNITED STATES AND JAPAN TO CAPITALISE ON THIS MOMENT.

Chile will likely be continuing. Furthermore, other than BDN's inaugural trilateral Steering Committee in January 2020 – which discussed a possible vision statement, membership criteria, and responsibilities^{5.5} – the BDN has yet to issue certification standards businesses can benchmark against more than a year later.

The Biden administration

As evidenced by the last two years, Australia's, the United States' and Japan's development agencies' infrastructure programming is not adequately structured to facilitate private sector take-up. In the case of the United States, not even a major restructure of its development agencies in 2018, whereby the Overseas Private Investment Corporation was transformed into the US-IDFC,^{5.6} has addressed this issue.

Figure 7. Chinese investment and contracts in the Indo-Pacific, 2014-19 (US\$ billions)



Although the US-IDFC possesses new development finance tools specifically designed to support private-sector-led projects such as small grants, loan guarantees, and equity investments, several factors including lacking communication and an inaccessible online interface are keeping business away.^{5,7} Following a meeting of the Trilateral Infrastructure Partnership with Vietnam in October 2020,^{5,8} the US-IDFC has yet to make any further public announcements regarding the progress or future direction of this initiative.^{5,9}

PART OF THE DIFFICULTY IS THAT AUSTRALIA, THE UNITED STATES AND JAPAN HAVE SEPARATE, NOT ALWAYS EQUAL, INFRASTRUCTURE PRIORITIES, AND THE WIDE RANGE OF REGIONAL INFRASTRUCTURE NEEDS CAN SCATTER FOCUS, PREVENTING THE ESTABLISHMENT OF A PROJECT PIPELINE.

Australian interests

Supporting strategic infrastructure projects remains one of the most tangible ways to promote growth, demonstrate regional leadership, and further Australia's national interests. Australia can maximise its impact in this space by working with like-minded partners and leveraging private-sector investment. However, clearly, there have been challenges to working trilaterally and getting the private sector on board.

Part of the difficulty is that Australia, the United States and Japan have separate, not always equal, infrastructure priorities, and the wide range of regional infrastructure needs can scatter focus, preventing the establishment of a project pipeline. In addition, to lift the BDN out of obscurity, some basic benchmarks must be set and the commercial benefits to certification proactively pushed out to business. Further, a review of the US-IDFC to understand the positive and negative effects of the restructure on attracting private investment could assist the United States to make adjustments as necessary, as well as help Australia and Japan decide if and how they should implement similar changes within their own development agencies.

Policy recommendations

Australia, the United States and Japan collectively should:

- › **Discuss the potential for a trilateral infrastructure hub established in Southeast Asia, initially dedicated to one aspect of infrastructure provision to the region.** A central hub that focused on one major project, for instance, internet connectivity, would help narrow focus. The three countries could then reach out to industry partners in the field and cultivate and leverage business expertise to deliver similar projects to multiple countries over several years. A hub and single-area focus would help catalyse the Trilateral Partnership reputation in the region as a credible alternative to the BRI.
- › **Engage business via a regular Indo-Pacific infrastructure investment symposium to understand industry needs and promote interest in public-private partnerships.**^{5,10} When feasible, Australia could propose an infrastructure symposium hosted in Southeast Asia bringing together Australian, US and Japanese governments and businesses. A symposium with latitude for private discussions could help government quickly understand where the roadblocks are for industry, including on regulatory concerns, as well as share information regarding government priorities on a country and sectoral basis.
- › **Clearly outline the BDN's certification standards and procedures to access partner government funding.** In addition, the rewards of certification to business should be explicit – for instance, allowing business to trumpet their prioritisation of environmental protection and sustainability as a responsible global citizen. The BDN could also be expanded to include base-level grants (non-repayable financial contribution provided under strict guidelines).
- › **Evaluate and reform development programming in the infrastructure space, based on the priority of maximising private-sector engagement.** Recalibrating the orientation of relevant agencies to the specific needs of the private sector will greatly augment their capacity to leverage involvement. An assessment of infrastructure programming in all three countries should be conducted to identify how to make these programs more business-friendly.